COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| DICKERSON LUMBER EP COMPANY<br><br>COMPLAINANT<br><br>v.<br><br>FARMERS RURAL ELECTRIC COOPERATIVE and EAST KENTUCKY POWER COMPANY<br><br>DEFENDANTS | ) ) ) ) ) ) ) ) ) ) | CASE NO. 9892 |

O R D E R

On May 6, 1988, the Public Service Commission ("Commission") issued an Order setting rates, terms, and conditions of purchase of electric power by East Kentucky Power Company ("EKP"), Farmers Rural Electric Cooperative ("Farmers"), and Fleming-Mason Rural Electric Cooperative ("Fleming-Mason") from Dickerson Lumber EP Company ("Dickerson") and Rowan County Association of Power Producers ("RCAPP"). On May 25, 1988, Dickerson filed a Motion for Rehearing and Clarification of Certain Issues. EKP, Farmers, and Fleming-Mason did not respond to Dickerson's Motion.

ISSUES ON REHEARING

Avoided Cost Methodology

Dickerson's petition requested that the Commission reconsider its adoption of an avoided capacity cost methodology based on plant deferral. Dickerson alleges that the methodology is not sensitive to long range energy costs and, therefore, does not properly calculate true avoided costs.

The Commission in its Order of May 6, 1988 stated that "EKP has proposed to use its own system planning criteria in determining its avoided capacity costs" and determined that it was consistent with its Order in Case No. 8566, Setting Rates and Terms and Conditions of Purchase of Electric Power from Small Power Producers and Cogenerators by Regulated Electric Utilities. EKPC in determining the present value of its revenue requirement under its adopted 20-year capacity plan included the following, "[T]he investment costs, operating and maintenance costs, fuel costs, interest income and margins . . ."[1] The Commission does not concur with Dickerson's position that EKP's methodology is not sensitive to long run energy costs and will reject it's petition for rehearing.

Avoided Costs Based Upon Wholesale Rate At Time Of Purchase

Dickerson requests that the Commission grant rehearing with Farmers and Fleming-Mason in order to establish avoided capacity costs based on time of delivery. Dickerson and RCAPP contend that under FERC Regulation 18 CFR {292.304(d)(2) that the Qualifying Facility ("QF") has the option of selling energy or capacity under a legally enforceable contract based on either: (1) the avoided costs calculated at the time of delivery; or (2) the avoided cost

1 EKP Supply Requirements Study, II-3.

calculated at the time the obligation is incurred. Furthermore, Dickerson contends that under 18 CFR {292.303(a) that Farmers must purchase the power unless Dickerson agrees to permit Farmers to transmit the power to another utility. Finally, Dickerson contends that the appropriate method for determining avoided capacity and energy cost at the time of delivery for Farmers would be ". . . by basing avoided costs on the wholesale contract in place between EKP[C] and its member cooperatives at the time of delivery."[2]

In this proceeding, the Commission has endeavored to develop a methodology for determining avoided capacity costs which reflect the savings that would occur on EKP and its member cooperatives' systems from QF capacity purchases. The Commission does recognize that FERC Order 69 did provide alternative methods for developing avoided capacity costs estimates. In establishing this case, the Commission gave all parties the opportunity to propose a methodology that each considered appropriate for estimating avoided capacity costs. Dickerson did have the option of proposing an avoided capacity cost methodology that reflected an adjusted wholesale contract rate for capacity purchase. Dickerson chose a different methodology. The Commission remains of the opinion that the avoided capacity costs methodology adopted by it in the original Order is appropriate and will deny Dickerson's request for rehearing on this issue.

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2 Dickerson Motion for Rehearing and Clarification, page 4.

## ISSUES REQUIRING CLARIFICATION

### Lead times

Dickerson requested clarification concerning, ". . . the problem of lead times of the power plant being deferred and the effect of this on QF rates."[3] Though the Commission is unable to locate the passage referred to by Dickerson, the Commission will respond to Dickerson's concern. It is the opinion of the Commission that the capacity purchase rate will be based on the rate in effect and agreed upon when the contract is signed.

### Insurance

Dickerson requested that the Commission delete the insurance requirement for small QFs and open it to negotiations. Dickerson contends that small residential systems (1 KW to 10KW) would find that the insurance would cost more than the benefits of the system.

Though the Commission recognizes that insurance requirements may have a negative impact on small QF development, the Commission is of the opinion that it is not an issue in this case and will deny Dickerson's request. It will consider this issue on a case by case basis.

### Forced Outage Rate

Dickerson requests that the Commission clarify its requirement that QFs should maintain a "force outage rate" equal to that of EKP generators on average.

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3 *Ibid.*, page 7.

The Commission in establishing this requirement intended to require that QFs as a group meet the same availability and reliability standards as EKP's units. The Commission does not intend to require the QF to meet a rated output but instead to meet their contract output. To the extent that a QF unit is unable to be available for generation during EKP's peak season, whether for technological or climatic conditions, the Commission would consider that a "forced outage."

IT IS THEREFORE ORDERED that the Petition by Dickerson for rehearing be and it hereby is denied.

Done at Frankfort, Kentucky, this 14th day of June, 1988.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director